JANUARY 1, 1991
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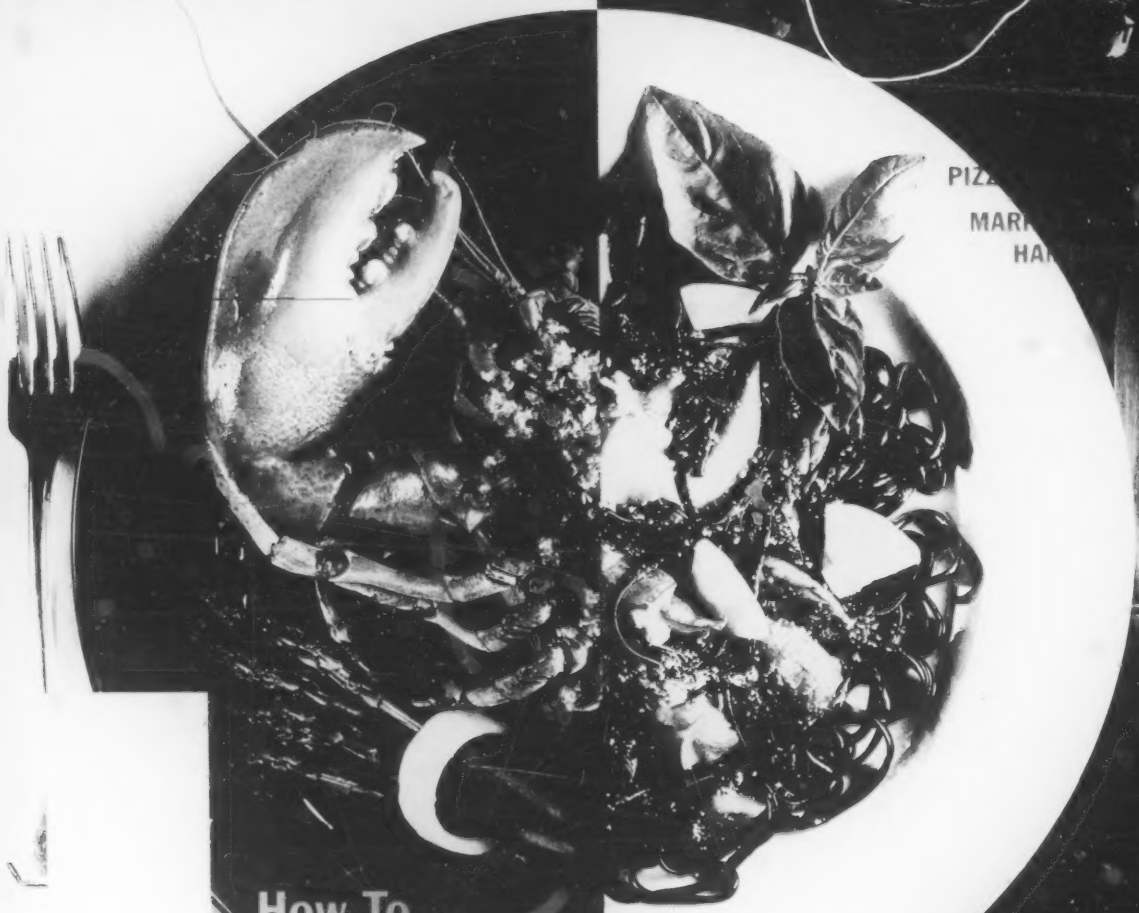
RB

RESTAURANT BUSINESS



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How To Cut Costs

And Keep Customers Coming

RB CONTENTS

JANUARY 1, 1991 VOL. 90, NO. 1

COVER STORY: Operators are finding creative ways to cut costs. Pictured: a whole stuffed lobster becomes a pasta dish. Page 83

COVER STORY

OPERATIONS HOW TO CUT COSTS. To stay alive in today's highly competitive environment, you have to be prepared to adapt and change. Operating costs in every area have indexed upward, and yet prices cannot be raised proportionately because of patron price resistance. The marketplace and economy have forced restaurant operators in every segment to innovate and modify—just to maintain share. Restaurateurs are taking a wide range of approaches to cost cutting, including staff cuts, earlier closing hours, more bargaining with suppliers, and reduced marketing expenditures. **83**

FEATURES

INDEPENDENT STAR CAFFE TUTTI. The pier area of Sausalito bustles early in the morning as Marin County commuters board the ferries that take them to San Francisco. For the last two years, those commuters have been able to stop in at Caffe Tutti before they board their boats, and they have taken full advantage of it. **71**

INDEPENDENT STAR DILULLO'S. Caffe DiLullo and DiLullo Centro in Philadelphia, which have special-occasion prices and posh surroundings, had a banner year in 1989—and 1990 was just as good. The restaurants continue to command favorable reviews for their classic Northern Italian cuisine and elegant ambience, and customer counts have managed to hold steady despite the softening local economy. **77**

MARKET SEGMENT REPORT HAMBURGER. It's a truism that hamburger restaurants face escalating competition in their mature, saturated segment. However, political and socioeconomic events in recent months promise to make the situation even tougher and more unpredictable than ever before. Traditionally, fast-food sales have held up in down times, as customers reduce their discretionary spending on big-ticket items and luxuries. But this time around, it may be different. Newly frugal customers are taking a closer look at the value they receive from the major fast-food chains. **95**

WARES, ETC. DINING ROOM CARTS. Mobile equipment has been used extensively in kitchens for years but it also plays an important role in the front of the house. Carts can be used for everything from displaying desserts at the front door to acting as a platform upon which an entire dinner is prepared. **140**

FOOD AND BEVERAGE

DRAFTS, CARAFES & SPIRITS WORLD CLASS WHISKIES. These premium spirits speak to quality, luxury, and status by dint of their age, production pedigrees, and price tags. When well merchandised, these whiskies are potent additions to the bottom line and they help create an upscale image. **121**

Cover photography by Don Kushnick
Food styling by Scott Allmendinger

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MENU IDEAS PIZZA BY DESIGN. Sales of pizza have grown from $11 billion in 1984 to over $17 billion in 1989, and restaurant pizza purchases by far represent the largest segment of the total pizza market. Not surprisingly, national and regional pizza chains as well as independent operators have ambitious plans to carve out an even larger portion of the pizza pie. In fact, of the 10 operators interviewed for this story, seven have major expansion plans set for the next two years. Success in the pizza game means developing a product that will really sell, because the competition is fierce. 127

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PIECE MEAL CHIMICHANGAS. Like the eggroll, the calzone, and the Russian pierogi, the chimichanga is another variation on a theme—stuffed, rolled, deep-fried dough—that proves continuously popular. 137

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Reprints of the **1990 RESTAURANT GROWTH INDEX** and **1990 MAJOR FORCES IN FRANCHISING** are available by mail for $7 per copy. Direct inquiries to Editorial Director Peter Berlinksi, *Restaurant Business*, 633 Third Ave., New York, NY 10017.

IN THE NEXT ISSUE

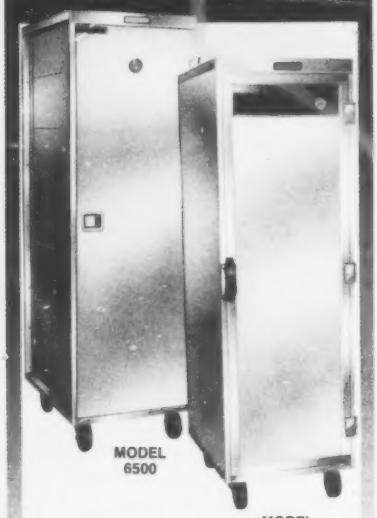
COVER STORY: ANATOMY OF A FAILURE. Anyone who enters the restaurant business knows they enter at their own risk; failure rates and financial losses incurred are high. This article takes an in-depth look at two operators who didn't fare as well as they had hoped: Patrick Clark, former chef/owner of Manhattan's widely acclaimed Metro, and Brion Foulke, founder, chairman, and president of the Ft. Lauderdale-based Taco Viva.

MARKET SEGMENT REPORT: ITALIAN. At a time when operators in all segments have to rethink expansion strategies, the Italian segment remains amazingly healthy. Traditionally dominated by independents, this segment has continued to experience chain growth in 1990. Patrons' perception of Italian food as healthy, coupled with its popularity as the number-one ethnic cuisine have contributed to its steady growth. For operators, low-cost, high-profit menus have made bottom lines flourish.

DRAFTS, CARAFES: AFTER-DINNER DRINKS. When winter winds blow, warming potions raise patrons' spirits and operators' average check.

TEST KITCHEN: Pizza, p. 127.

HOLDING PROOFING



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HAMBURGER

Consumers are concerned about fast-food calories.

By James Scarpa

It's a truism that hamburger restaurants face escalating competition in their mature, saturated segment. However, political and socio-economic events in recent months promise to make the situation even tougher and more unpredictable than ever before. Traditionally, fast-food sales have held up in down times, but this time around, it may be different. Newly frugal customers are taking a closer look at fast food's value.

BAROMETER. Many restaurant observers regard Oak Brook, IL-based McDonald's Corp. as a barometer of the health of both the industry and the segment. However, recently they saw cracks appear in Big Mac's mantle of invincibility. They saw McDonald's string together eight straight quarters of slumping same-store sales.

Observers also saw the world's largest hamburger chain appear vulnerable to pressure from media-savvy health and environmental groups. Last year, a health crusader bought full-page national newspaper ads headlined "The poisoning of America," assailing the fat content of McDonald's food. An *Advertising Age*/Gallup follow-up poll reported that people were eating less at McDonald's and other fast-food chains as a result. Moreover, relentless pressure from environmental activist groups influenced McDonald's recent abrupt decision to abandon the polystyrene foam "clamshell" hamburger box.

Of course, McDonald's still holds a commanding lead in the segment, with its 1989 U.S. systemwide totals of 8,270 units and $12 billion sales. Its response has been to fight against price-cutting competitors with its own selective local discounts and to increase new product development.

These days, banners hang on many McDonald's promoting 99¢ Big Macs and 25¢ specials on coffee and yogurt cones. And, McDonald's has launched pizza in more than 200 stores. It is also test-marketing a number of new items, from fried chicken to fajitas to submarine sandwiches to a whole new concept—the Golden Arch Cafe. It has improved its health perception

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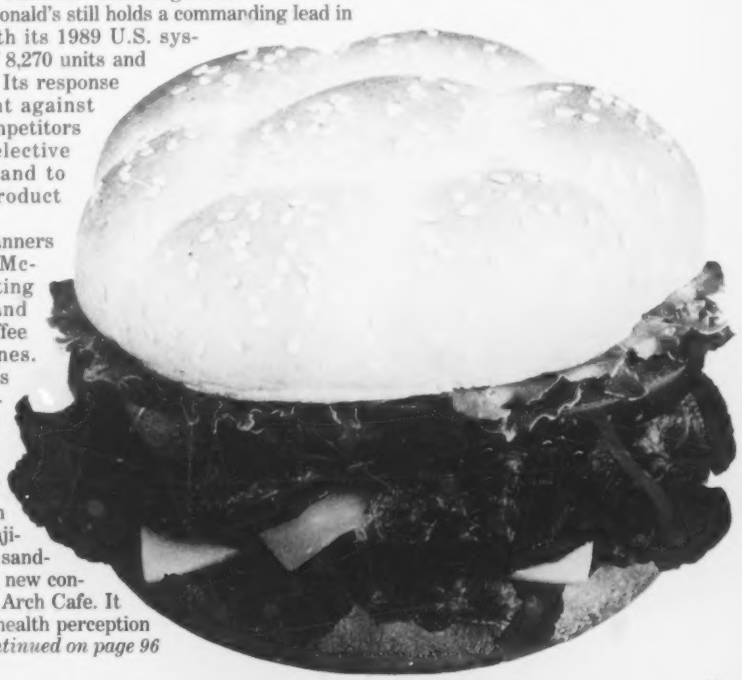

Jack In The Box, the fifth largest hamburger chain, is known for its new product innovation.

MARKET SEGMENT REPORT

HAMBURGER

by rolling out nonfat frozen yogurt and nonfat shakes, and switching to an all-vegetable frying fat. At press time, it had just announced a limited test of the Lean Deluxe—a 91% fat-free ground beef sandwich.

Miami-based Burger King Corp. paused from its turnaround struggle to run full-page national newspaper ads mockingly acknowledging McDonald's switch from polystyrene and congratulating itself for using paper packages since its founding in 1954.

YAWNING GAP. BK's situation under Grand Metropolitan PLC of London has improved compared to its last days under Pillsbury Corp., but there remains the yawning gap separating it from the number-one burger chain. It finished 1989 with U.S. systemwide totals of 5,387 units and more than $5 billion in sales.

The company is being reorganized into five divisions: Burger King Retail Division, Franchise Sales and Service, Real Estate, Burger King Distribution Services, and International. Each department is headed by a president who reports to CEO Barry Gibbons. Consequences of the plan include layoffs of more than 300 and the closing of seven of its 19 regional offices.

An unusual provision of the plan calls for the roughly 875 company-owned stores in the newly formed Burger King Retail Division to be treated much the same as franchised stores.

BK is dropping its "Sometimes You've Gotta Break The Rules" theme in favor of "Breaking The Rules Just For You," due to franchisee criticism that the original slogan advocated illegal behavior.

New products have been rolled out over the past year at a much faster pace than during the troubled Pillsbury years. The most notable success is the BK Broiler chicken sandwich. Other rollouts include a line of Double Cheeseburgers; Pick 'Em Ups chicken strips, a finger food in a cartoon-decorated package; and Burger Buddies, mini cheeseburgers. BK has also switched to an all-vegetable frying fat.

Intriguingly, four Burger King stores in Columbia, SC, are testing Domino's Pizza's 6-in. Pizzazz pizzas.

REORGANIZING. The number-three burger chain, Rocky Mount, NC-based Hardee's Food Systems, is likewise reorganizing its management. It finished 1989 with U.S. systemwide totals of 3,291 units and $2.9 billion in sales.

The Imasco Limited subsidiary took a one-time $8 million charge against earnings in the third quarter ended September 30, 1990, to cover a management force reduction, including incentives for early retirement and voluntary separation. Hardee's cited that charge, plus the weak economy and stiff competition, to account for its 49% decline in operating earnings in the quarter, down to $22.6 million.

On the upside, Hardee's $365 million acquisition early last year of 648 Roy Rogers restaurants from Marriott Corp. gives it a potential major boost. At press time, 300 Hardee's units had been outfitted to sell Roy Rogers' chicken, and 200 Roy Rogers had been converted to the Hardee's signage.

Hardee's expansion plans emphasize franchising rather than company store growth as it pays off the acquisition. It

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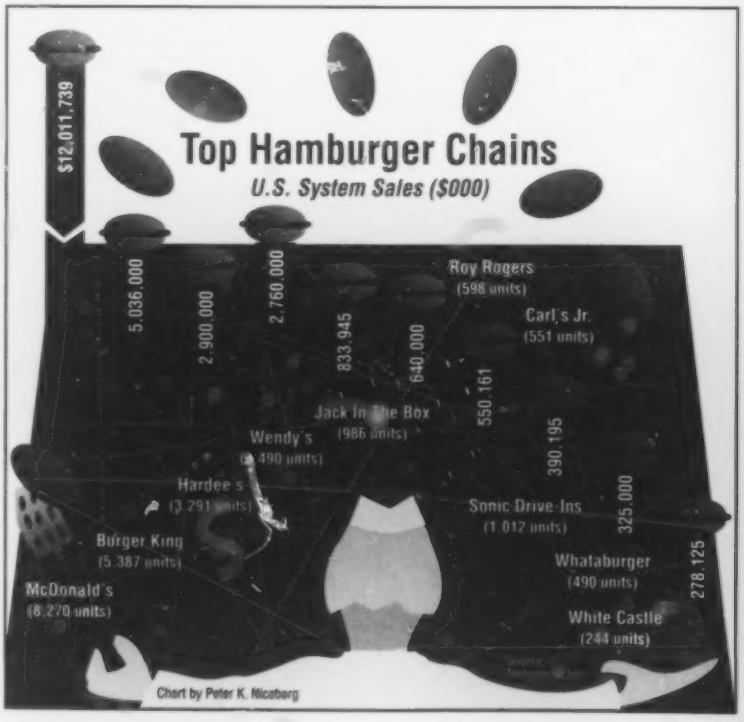
Frugal customers are taking a closer look at fast food's value.



MARKET SEGMENT REPORT

HAMBURGER

has targeted greater Chicago—McDonald's back yard—as a major growth area, projecting 200 new franchised stores there.

OPTIMISTIC. One of the segment's few sources of optimism and high spirits these days is Dublin, OH, home of Wendy's International Inc. The segment's number-four player, with 1989 U.S. systemwide totals of 3,490 units and $2.7 billion sales, is decisively reversing its mid-1980s tailspin.

In the third quarter ended September 30, 1990, Wendy's earnings increased 45% to $12.7 million, compared to $8.7 million in the same period of 1989. In fact, the company's earnings for the first three quarters of 1990 totaled $31.5 million, exceeding the $24.7 million for the entire previous fiscal year.

"We will have our highest profit in four years this year," says vice president of communications Denny Lynch. "We've already undergone our period of rigorous belt tightening in the past few years, so we may be better positioned for tough times than the other chains."

Our entire company is being run better today on all levels," said Jim Near, Wendy's CEO, president, and COO, in the third-quarter earnings statement. During the quarter, couponing and operating costs were reduced, and operating margins were increased from 10.7% to 12.7%.

Near credited the Super Value Menu with reducing the perception that Wendy's is higher priced than the competition. The Super Value Menu consists of 99¢ menu items. In addition, Wendy's has rolled out the successful new grilled chicken sandwich and Dave's Deluxe burger, and switched to an all-vegetable frying fat.

STANDOUT. Two accomplishments over the past year stand out for San Diego-based Jack In The Box, the fifth largest hamburger chain. The Foodmaker Inc. subsidiary opened its milestone 1,000th restaurant and signed its first international licensing deal with a Mexican partner. It finished 1989 with U.S. systemwide sales of $834 million.

White Castle celebrates its 70th anniversary this year.

Double drive-thru-only concepts are expanding rapidly.

In addition, Jack In The Box added to its reputation for frequent product innovations by rolling out the Bacon Bacon Cheeseburger, Sirloin Cheesesteak, Ham & Turkey Melt, and the Old Fashioned Patty Melt. Like several other segment players, it switched to an all-vegetable frying fat.

Also like many of its rivals, Jack In The Box is monitoring the changing consumer perceptions of price and value. "It's true that value today sometimes means lower prices to the customer," says Mo Iqbal, executive vice president of marketing. "We always have some menu items that satisfy that need."

NEW FOCUS. Anaheim, CA-based Carl Karcher Enterprises Inc. (CKE), parent of Carl's Jr., a regional burger chain on the West Coast, is reining in costs, refocusing on its core California markets, stepping up menu development, and placing additional emphasis on franchising. Its 1989 U.S. systemwide totals are 551 units and $550 million in sales.

In recent years, CKE has been selling company-owned units to franchisees, aiming to increase franchised units in its system from 23% to 40%. The company believes it will reduce the risks of large company holdings and expedite expansion. It also plans to sell 57 company units to franchisees in northern California. It has also franchised or sold off its more than 40 Arizona stores, stemming a loss of about $5 million.

On the international front, CKE has signed a licensing agreement with a Malaysian company to establish Carl's Jr. restaurants in nine Pacific Rim countries. It has also signed its first licensee in Mexico. A Japanese licensee opened its first Carl's Jr. in 1989, and anticipates a total of 30 by 1993.

Carl's Jr. has rolled out the Roast Beef Deluxe sandwich, and begun test

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MARKET SEGMENT REPORT

HAMBURGER

marketing freshly baked 14-in. pizzas, priced $7.99 to $10.99. Customers may get two pies for $11.99 to $15.99.

The Atlanta-based Arby's sandwich chain is a major quick-service competitor to the burger players, with its 2,139 units and nearly $1.3 billion sales in 1989. Late in 1990, Arby's acquired the assets, trademark, and franchising rights of Daddy O's Express Drive-Thru Restaurants from G.D. Ritzy's Inc. of Columbus, OH.

DRIVE-THRU. "We feel the potential for double drive-thrus is especially good now," says executive vice president of operations George Nadvit. The company is building units in Atlanta and Miami.

The five existing Daddy O's have a 550-sq.-ft. to 600-sq.-ft. building. Construction and equipment costs are expected to range between $200,000 and $300,000, excluding land costs.

"This is a business that's darn near recession proof," says franchising director Ed Griswold of Nashville-based Beefy's Inc., a 33-unit chain of double drive-thru hamburger stores, nine of which are company owned.

Projections call for Beefy's to add 30 units over the next year. The cash requirement for a prospective franchisee is $30,000, including franchise fee, deposits, inventory, training expenses, and working capital. Financing covers the rest of the deal, including Beefy's 36-ft. modular building, which can be erected in four days and lists for $63,660.

Too many new products may have slowed fast food.

FAST-GROWING. The runaway leader of the double drive-thru category and one of the entire industry's fastest-growing chains is Louisville, KY-based Rally's, which has more than 250 units. It topped off at $159 million in systemwide sales in fiscal 1990. Chairman and CEO Richard F. Sherman projects 375 units by the end of 1991. Rally's held its initial public offering in 1989, and expanded into 31 new markets. Late in 1990, Rally's announced that it had signed Snapps Drive-Thru Inc. to a letter of intent to become a franchisee. Snapps will convert its 43 stores to Rally's over a 42-month period, and has a stock-purchased incentive to open as many as 60 new Rally's.

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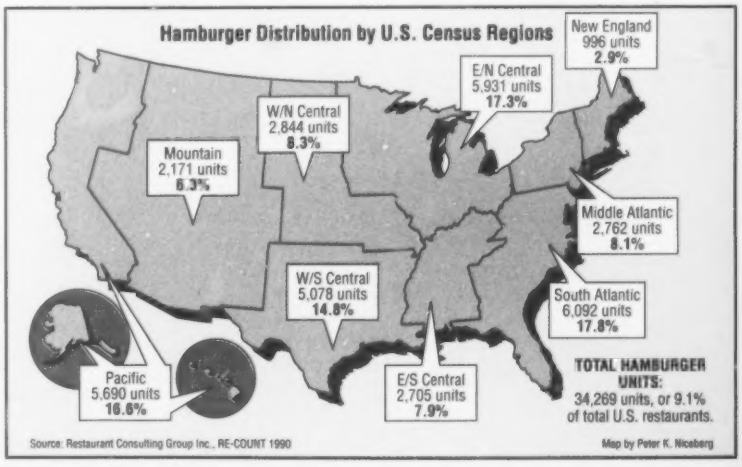


HAMBURGER

Checkers, a 48-unit drive-thru-only chain headquartered in Clearwater, FL, has targeted the Chicago area for major expansion. Two franchised units in the suburbs are off to a fast start.

CASUALTIES. There have been some casualties along the way, such as the Grand Junction double-drive-thru chain that went bankrupt last year. Grand Restaurant Corp. of Tennessee has purchased the rights to the 18-unit chain, and hopes to revive the concept.

Chattanooga, TN-based Central Park USA Inc. claims to have originated the double drive-thru concept in 1982. Central Park still offers only three items, and prices are rock bottom—about 89¢ for burgers, 49¢ for fries and soft drinks.

Central Park now has 70 units, and is opening two to three per month, which officials say will accelerate to four units per month in the fourth quarter.

More than a decade ago, there was a short-lived boom in "gourmet" burger restaurants. Chains that survived, such as Chili's, shed the label and evolved into casual-dining concepts. In contrast, Fuddrucker's remains faithful to the gourmet burger tradition.

"We remain very much interested in serving the world's greatest hamburger," says Fuddrucker's president William Baumhauer, who heads the 114-unit chain for Wakefield, MA-based daka International Inc. Burgers account for more than 50% of sales. Checks average $6.

REGIONAL CHAINS. Despite the dominance of the segment by giant chains, some strong regional chains exist that hold loyal constituencies with dependable food and distinctive personalities. Some have achieved virtual cult status, exemplified by White Castle, Winstead's, and Steak-N-Shake.

Grandaddy of them all is Columbus, OH-based White Castle System Inc., which celebrates its 70th anniversary in 1991. The 246-unit chain is still controlled by the founding Ingram family. Its U.S. system sales totaled $278 million in 1989.

After all these years, White Castle sells its unique small square hamburger, sold for the inflation-adjusted price of 35¢. New product innovations include a breakfast sandwich. Over the past year, White Castle has broken ground in four new markets: Philadelphia, Cleveland-Akron, Nashville, and Kansas City. Its expansion is conservative, opening about six units per year.

Discounts and price cutting are rampant.

A Kansas City tradition since 1940, Leawood, KS-based Winstead's features table service, plastic-laminated menus, china and silverware rather than disposables, and a nostalgic Art Deco decor. Headlining the menu is the steakburger, offered as a single Winstead ($1.45), double Winstead ($2.45), and triple Winstead ($2.85).

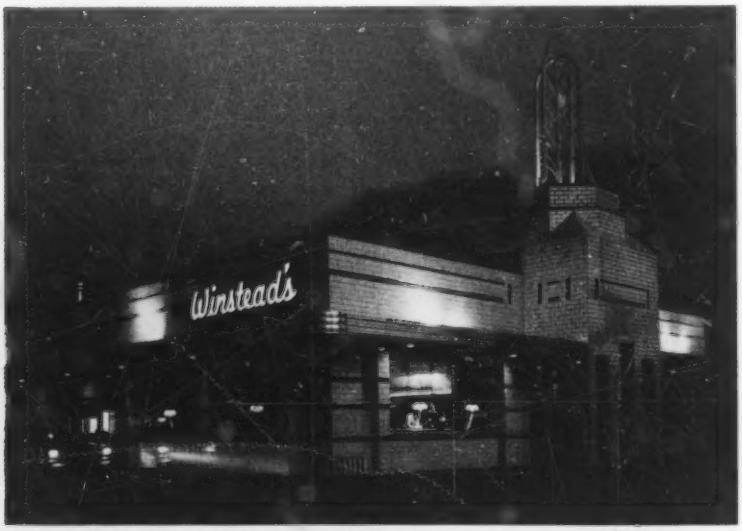
Winstead's celebrated its golden anniversary last year by initiating its first franchising program. The 13-unit chain has lined up franchising deals in Phoenix and Denver.

Similar in many ways, but older and larger, is the Steak-N-Shake chain. Since its founding in 1934, it has grown to 117 units, 13 of which are franchised, and nearly $107 million in annual revenues. Today, it is a wholly owned subsidiary of Indianapolis-based Consoldiated Products Inc.

Steak-N-Shake, too, has a nostalgic decor theme, features steakburgers, and has service of food on china with silverware. Steak-N-Shake projects six to eight franchised openings and four company stores per year.

DELIVERY. In Ann Arbor, MI, the pizza delivery capital of the world, G.W. Fresh Burgers Inc. aspires to perfect the hamburger delivery business.

The company acquired the assets and trademark of the Burger Fresh chain, which went bankrupt in 1988. The new regime has revived one of the surviving stores and opened two new ones. President Mark Drayton projects that stores are capable of producing $6,000 in sales per week. **RB**



Winstead's is a Kansas City area tradition.